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Weekly Review

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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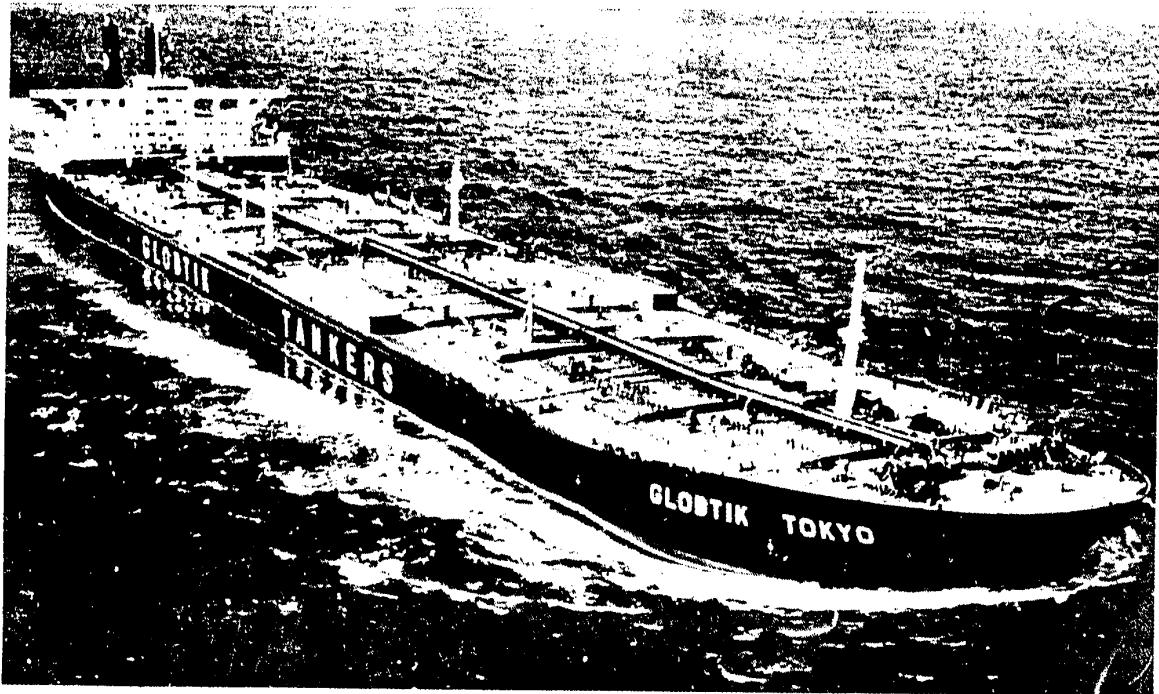
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Arabs Turn On Oil Valve

Arab oil should start flowing toward the US soon. The amount immediately available will restore a major part of the oil received from Arab sources before shipments to the US were embargoed last October during the Middle East war.

After the announcement on March 18 of the Arab decision to lift the embargo, Saudi Arabian Oil Minister Yamani told newsmen that his country's production will be increased immediately by more than 1 million barrels per day. Most of the increase, he said, will go to the US. If Saudi output does go up by that amount, production will be about at the level that prevailed last September.

Production can be increased immediately, and there is substantial tanker tonnage available in the Persian Gulf. The normal transit time between the gulf and the US is 35-40 days. Furthermore, a small number of tankers en route to other destinations may be diverted to the US. Additional supplies could begin to reach the consumer even sooner, because refiners and distributors may be more willing to draw down stocks in anticipation of greater crude oil supplies.

The increase in production should exert further downward pressure on crude prices. The full impact will depend on the extent to which US oil consumption increases in response to the lifting of Arab restrictions. Auctions by producer governments in recent weeks have brought lower offers than the governments had expected.

The refusal of Iraq, Libya, and Syria to join in ending the embargo will have little effect on world oil supplies. Iraq never did cut production and did not participate in the meetings of Arab oil ministers in Tripoli and Vienna at which the embargo was ended. Libyan production is only about 200,000 barrels per day below its September level. Prior to the embargo, the US received about 350,000 barrels per day from Libya. Syria, a minor producer, does not export oil to the US.

The agreement announced in Vienna also provides for increased amounts of oil for Italy and West Germany, and for individual members to increase production to the level necessary to implement the various decisions. Yamani said, however, that the embargo on the Netherlands would not be lifted.

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The announcement by the Arab oil ministers followed a decision on March 17 by the 12-nation Organization of Petroleum Exporting Countries to maintain current posted prices during the next quarter. OPEC's decision was a compromise between Saudi Arabia, which had hoped to lower prices, and Algeria and Libya, which had pressed for still higher prices.

None of the Vienna agreements were easily reached, primarily because the oil-producing countries are aware that any substantial increase in production must ultimately lead to lower prices. Although current Arab production is only 88 percent of the September 1973 level, world crude prices have been softening for several weeks as adjustments to the earlier price hikes curbed demand.

The Arabs' inclusion of a provision for a review on June 1 of the decision to lift the embargo against the US means they have not foreclosed use of oil as a political weapon in the future. The Egyptians and the Saudis, however, had concluded that the time had come to make a gesture of recognition to the US for its diplomatic efforts that led to disengagement on the Egyptian-Israeli front and to encourage Washington to press ahead in working toward a comprehensive settlement. They worked hard for a united front on this stand, but finally failed to bring along the Syrians and Libyans. The hard-lining Algerians were persuaded to go along with the majority, but apparently only after some tough bargaining. The Algerians had earlier argued for the review proviso, and its inclusion in the agreement was probably at their insistence.

Egypt's failure to achieve unanimity was a setback for President Sadat, although not an unexpected one; he has tried to minimize the importance of Arab differences. Cairo's authoritative Middle East News Agency went to some lengths to play down the dissenting positions of Syria and Libya.

Damascus has said nothing publicly. President Asad almost certainly believes



that the move has hurt Syria's negotiating position, just as he believes his interests were damaged by Egypt's earlier decisions to exchange POWs and to agree to a disengagement of forces in the Sinai. If no progress is made on a separation of forces agreement on the Golan front, Asad will probably press Saudi Arabia and Egypt to reimpose the embargo in June. In the meantime,

Throughout the debate among the Arab oil ministers, the Libyans apparently avoided obstructionist tactics in an effort to preserve their uneasy rapprochement with the Egyptians and the Saudis. Syria's firm opposition, however, provided the Libyans with a convenient justification for finally rejecting the majority decision. Although sharply critical of the announcement from Vienna, Tripoli has focused its objections on the timing of the decision rather than on the issues; by thus qualifying its dissent, Tripoli has left itself some leeway for future moves.

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Europeans Unsure of US Aims

The governments of the nine EC members have reacted publicly with restraint to recent expressions of US displeasure—including the President's criticism in Chicago last week—with the inadequacy of political consultations between the Nine and the US.

Several of France's partners have acknowledged the need to consult more fully with Washington on pending community political decisions. There are, nevertheless, no signs that agreement among the Nine on a procedure for such consultations will be any easier to find now than during the lengthy discussions leading to the framing of the draft US-EC declaration that did not meet US requirements. Rather than encouraging France's partners to isolate Paris on the issue of relations with the US, the trans-Atlantic tensions seem to have increased their wariness of an open confrontation with Paris.

The problem of reconciling the wish of most of the Nine to preserve close ties with the US with their intention of preserving the integrity of a "European" decision-making process is not made easier by the shaky position in which many of the community governments find themselves today. The Labor government in Britain is taking pains to disavow any "struggle against America," but London's decision to try to negotiate better terms for UK membership in the EC—rather than threatening to withdraw—implies an intention to stick with its EC partners, including France. Although the Nine are unlikely soon to agree on any new suggestions for improving US-European consultations, Chancellor Brandt is reportedly drafting a reply to the US—after talks with the other EC members—in order to keep a dialogue open.

President Nixon's remarks in Houston this week, reaffirming his personal opposition to any unilateral US withdrawal of troops from Europe, have generally been greeted in Europe as a conciliatory gesture and a move to relax the charged trans-Atlantic atmosphere. But even if they are now less inclined to term the US stand an ultimatum, European commentators still perceive Washington's position as a challenge to Western Europe. Conciliatory sounds from both Washington and Paris, it is recognized, have not changed the substance of the debate.

Moreover, there has already been some European comment alleging a US "carrot and stick" approach to Europe. Such allegations reflect a lingering uncertainty over what the US specifically wants, short of becoming a de facto member of the community. There are still suspicions that the US requires an impossible choice be made between European unity and ties to the US.

France, for its part, may now be as interested in keeping trans-Atlantic quarreling within bounds as any of its EC partners, since to do otherwise would undermine Paris' aim of demonstrating that all the Europeans are in the same boat vis-a-vis the US. There are signs that the French may in fact welcome a breather from US-European polemics in order to launch a series of proposals ostensibly aimed at reinvigorating movement toward European unity. With the EC under pressure from the outside, its traditional decision-making processes stagnating, and leadership from the other members lacking, Paris may hope—by making apparent concessions to European solidarity—to have a better chance of shaping European institutions more to its liking.

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Israel-Syria

The Golan Front

Clashes of increasing intensity occurred daily this week between Israeli and Syrian forces on the Golan front. Both sides have admitted casualties in the exchanges, which have lasted as long as nine hours and have involved machine-gun, mortar, rocket, tank, and artillery fire.

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is in town. Secretary Kissinger will act as intermediary and is expected to meet with both parties separately after his return from Moscow late next week.

In contrast to Dayan, General Shihabi is little known outside the Arab world. He has served as a negotiator before, however, and is said to be highly regarded by President Asad. Last June, for example, Shihabi was in charge of the talks that resulted in the reopening of the Syrian-Lebanese border. In addition to his intelligence duties, he is a member of the important Baath Party Military Committee and of the Syrian Army's Political Bureau. Shihabi speaks fluent Russian and English as well as some French.

Official Israeli statements have reflected concern over the growing level of hostilities, but overall, the comment has been relatively moderate.

Speaking in Tel Aviv on March 18, Dayan called Syria's present terms for a disengagement "totally unacceptable," perhaps referring to Syria's reported calls for an Israeli withdrawal from the Golan Heights.

Dayan claimed that Moscow was not doing all it could to bring peace to the area and that the Soviets had the power to press Damascus into moderating its stand.

Measured Step Toward Negotiations

Despite the artillery exchanges on the Golan Heights this week, Syria and Israel moved a step closer to negotiations on a separation of forces. Tel Aviv announced that Minister of Defense Dayan will come to Washington on March 29 to handle the next exchange of proposals on disengagement. Damascus has reportedly named Brigadier General Hikmat Shihabi, chief of military intelligence, as its delegate to the talks, but he is unlikely to come to Washington while Dayan

The disposition of the town of al-Qunaytirah, which Israeli forces captured in 1967, may determine how much progress is made during the first phase of negotiations. Prime Minister Meir has repeatedly insisted that her government will

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not "reward" Syria for its surprise attack last October by handing back territory captured in 1967. The Syrians have been just as adamant about regaining at least some land lost then, including al-Qunaytirah. The town, once an important administrative center in the area and the largest town on the Golan Heights, has acquired considerable symbolic importance to the Syrians, and especially to Asad, who is still under pressure at home to demonstrate that negotiations with Israel are worthwhile.

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Missile Boats to Red Sea

The Israelis, in a long-planned move, are moving their two newest and largest missile patrol boats from the Mediterranean to the Red Sea. The deputy commander of the Israeli Navy informed the US naval attache in Tel Aviv that the boats were scheduled to reach South Africa late last week. They were expected to remain in port at Capetown for several days before continuing their 12,000-mile voyage to Sharm-ash-Shayk on the southern tip of the Sinai.

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CAMBODIA: SETBACKS AND SIHANOUK

The Khmer Communists this week dealt the government its first significant setback of the year by capturing Oudong. Late in the week, a 700-man Cambodian Army force was still holding on just outside Oudong, but insurgent troops had burned almost the entire town and had led off a large number of its 20,000 inhabitants. Government relief columns working their way toward Oudong from the north and east were stalled by stiff resistance.

compromise with American imperialism...if not literally throw themselves into its arms."

Although Oudong has little tactical importance, it is a recently created provincial capital and a former royal capital with religious and historical significance. Its capture on the anniversary of Sihanouk's overthrow provides the Communists with a much-needed victory to offset their recent poor showing in the Phnom Penh area.

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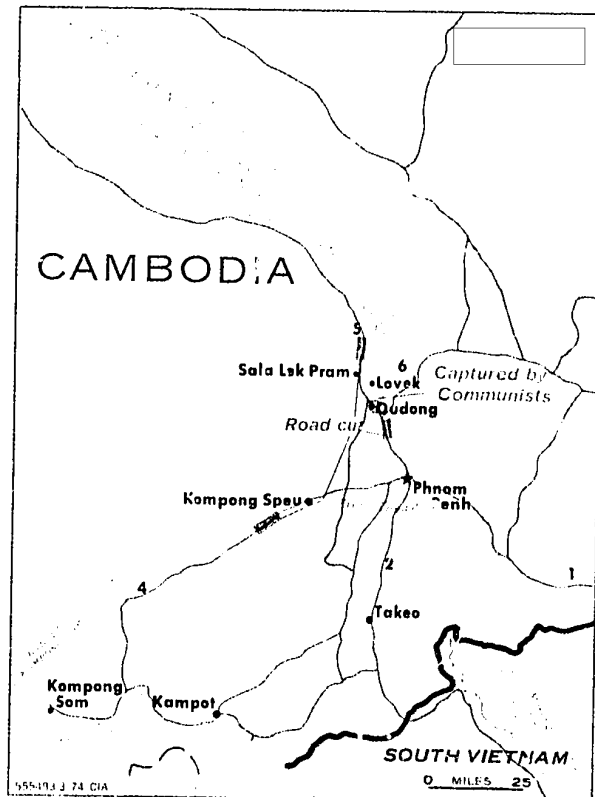
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In the far southwest, fighting has picked up around the isolated coastal city of Kampot, but government defenders there have held their ground. Reinforcements and supplies continue to arrive by air and sea, and government strength has grown to over 3,600. The Communists, who are proceeding cautiously, recently used 120-mm. mortars at Kampot. This is the first time the big mortars, which were part of recent North Vietnamese arms deliveries, have been used in the war.

A Familiar Refrain

On the international front, Communist representatives have renewed their tough line on negotiations. Sihanouk himself, during a brief visit to the Pathet Lao headquarters in Sam Neua last week, took the opportunity to reject any new possibility of talks with the Lon Nol government. He repeated the familiar line that any negotiations would have to be between his "government" and Washington. The Prince also lashed out at "bigger and stronger" countries, almost certainly China and the Soviet Union, which "prefer to



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LAOS: SOUVANNA PUSHES FOR COALITION

Skillful political maneuvering by Prime Minister Souvanna appears to have significantly weakened resistance to his efforts to form a new coalition government.

With his own letter of resignation in his pocket, Souvanna last weekend headed for Luang Prabang to seek reaffirmation of the King's support for his plan to form the coalition by direct royal investiture without prior ratification by the National Assembly. Although it is not yet certain that the King, a strict constitutionalist, unequivocally approved Souvanna's plan, he did endorse the Prime Minister's recommendation against the convocation of a special assembly session. A majority of deputies in the rightist-oriented legislature had demanded such a session to debate the constitutionality of Souvanna's proposed method of forming the new government.

SOUTH VIETNAM: MORE MILITARY MOVES

Communist forces in the central highlands last weekend initiated some of the heaviest fighting since the cease-fire. Their attacks, directed against several government outposts near Kontum City, probably were in retaliation for government efforts to block an eastward expansion of the Communist logistics corridor. The South Vietnamese 62nd and 95th Ranger battalions, positioned northeast of Kontum City, have been attempting to disrupt Communist efforts to connect a new road with an existing one.

Over 100 government Rangers, who had been missing for three days, reported on March 20 that up to half of the troops of the two government units may have been killed, including the commander and deputy of the 95th Battalion.

To the south in Military Region 3, government officials believe that the Communists may be preparing for new military action before the end of the month. The South Vietnamese anticipate some form of reprisal for the successful government operation during February in the Ho Bo Woods in Binh Duong Province as well as against other security operations in the region.

COSVN on March 5 banned all civilian activities along a road connecting Tay Ninh and Binh Duong provinces because of Communist military traffic. In addition, ralliers reported in early March that a medical unit has been moved into the forward area of the border provinces northwest of Saigon and additional food supplies are being sent there as well.

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Philippines-Malaysia **MORE WORDS OVER MUSLIM REBELS**

Manila and Kuala Lumpur apparently are building toward another war of words over alleged Malaysian support for Philippine Muslim rebels. President Marcos and his military advisers charge that outside military support channeled to Muslims through the Malaysian Borneo state of Sabah is a key factor enabling the rebels to resist armed forces efforts to end the fighting.

Philippine officials have raised charges of Malaysian support to Muslim insurgents at various times in the past. In early 1973, Marcos created a diplomatic uproar that seemed to threaten the cohesion of the Association of Southeast Asian Nations—Malaysia, Singapore, Indonesia, Thailand, and the Philippines. Marcos now believes that he has much better evidence of Malaysian involvement in the form of testimony by captured rebels, who claim they were trained in Malaysia. The detainees reportedly assert that they were trained by persons they believed to be Malaysian military officers and that they were transported in Malaysian military aircraft.

Manila began the latest round by leaking to foreign journalists a story that it has proof that Malaysia is supplying arms and ammunition to the rebels. Philippine officials have shown some of this "evidence" to Saudi Arabian Foreign Minister

Sagqaf, who visited Manila last week, and to the US ambassador. Philippine officials also alluded to Malaysian involvement during a briefing of foreign ambassadors held in early March.

Marcos probably hopes his campaign to present the Philippines as the aggrieved party will serve a dual purpose. Other Southeast Asian states, principally Indonesia, may be persuaded in the interests of regional harmony to press Kuala Lumpur to curb support from Sabah to the rebels. In addition, Marcos hopes to discredit Malaysia in the eyes of other Islamic states, particularly Arab oil producers, and thus undercut Malaysian agitation against Manila's treatment of its Muslim minority.

Marcos is combining his anti-Malaysia campaign with a skillful cultivation of certain Middle East states, such as Saudi Arabia. He seeks to convince them that he is making an honest effort to settle the Muslim problem but that outside interference makes this extremely difficult. Marcos obviously has his eye on the Islamic foreign ministers' conference scheduled for Kuala Lumpur in May.

If Kuala Lumpur and Manila begin trading charges over the Muslims, Jakarta will

Interrogating Muslim prisoners



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undoubtedly be drawn in because of its concern over the implications for regional stability and cooperation. Jakarta may try to revive the tripartite talks held in Hong Kong during 1973. At that time, Indonesia tried to act as an honest broker to settle the long-standing Philippine-Malaysian feud, but the talks broke down because neither side was prepared to compromise.

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BREZHNEV SPEAKS ON AGRICULTURE

Speaking at the 20th anniversary of the start of Khrushchev's New Lands program, Soviet party leader Brezhnev unveiled a land-improvement program for the Russian Republic aimed at leveling off the large fluctuations in Soviet agricultural output. He also spoke of the need to modernize and simplify agriculture's organizational structure. Indicating that agriculture is a top-priority sector, he warned that "national economic problems" must not tempt a diversion of resources from the farms.

Brezhnev revealed that 35 billion rubles would be spent during 1976-80 in the first phase of a 15-year project to develop agriculture in the non-black soil region of the Russian Republic. This sum is equal to a fourth of planned agricultural investment during the current Five Year Plan. The new program will include traditional land-reclamation projects—irrigation and drainage—as well as increased supplies of mineral fertilizer and other agricultural chemicals. The plan covers 124 million acres, 79 million of which are arable and the rest useful for grazing. The crop area represents about 15 percent of total sown acreage and is about equal to the 70 million acres plowed up in the New Lands of Kazakhstan and Siberia.

Although the non-black soil area has large tracts of boggy, uneven land, it has a high annual precipitation and responds well to the application of lime and mineral fertilizer. The Brezhnev agricultural programs of 1965 and 1970 got good results by providing more chemicals for this area, which has furnished more than one third of the increase in grain output in recent years. The new program is feasible only because the Soviets have been successful in boosting their output of mineral fertilizer.

On the other hand, the Soviets do not have a good record in implementing land-reclamation programs, however, and the Brezhnev plan is unlikely to work out as announced. In recent years, the amount of land that slipped into disuse exceeds additions of newly reclaimed land. In any case, major benefits from the new program will not be realized before 1980.



Brezhnev's speech also hinted that some agricultural reorganization may take place in the near future. He noted that the Central Committee is now looking over suggestions for improvements from the grass roots. He endorsed such local-level experiments as agro-industrial and inter-farm organizations, but warned that "hasty, artificial nudging and exertion of pressure" will not be tolerated. On the national level, he stated that the present structure of management has become over-complicated. Brezhnev called for "a unified approach" to all agricultural questions for the country as a whole and better coordination among the departments concerned with agriculture. At the same time, he stressed that centralized planned guidance must be balanced with operational independence for state and collective farms. These proposals echo in many ways the reorganization scheme currently under way in the industrial sector, namely, the creation of large, integrated production units at the local level and a streamlining at the national level.

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YUGOSLAVIA: TRIESTE AGAIN

The current dispute between Belgrade and Rome over jurisdiction in the "Zone B" corridor south of Trieste will probably continue to be noisy for some time. Tito is not expected to alter Yugoslavia's long-held position, especially since his other neighbors could raise similar irredentist claims. He undoubtedly believes that maintaining a firm stand will help to ease this burden for his successors.

Zone B came under Yugoslav administration under the terms of the Allied peace treaty with Italy in 1947 and of the London memorandum of understanding in 1954. Although Yugoslavia and Italy are both signatories to the London documents, they have not signed any bilateral agreements on the border. Since the end of World War II, Italian rightists—who are particularly strong in the Trieste area—have blocked Rome's efforts to meet Belgrade's demands for official Italian recognition of Yugoslav jurisdiction over Zone B. In recent years, however, the Italians have been able to give Belgrade private assurances that no renewed claims would be made.

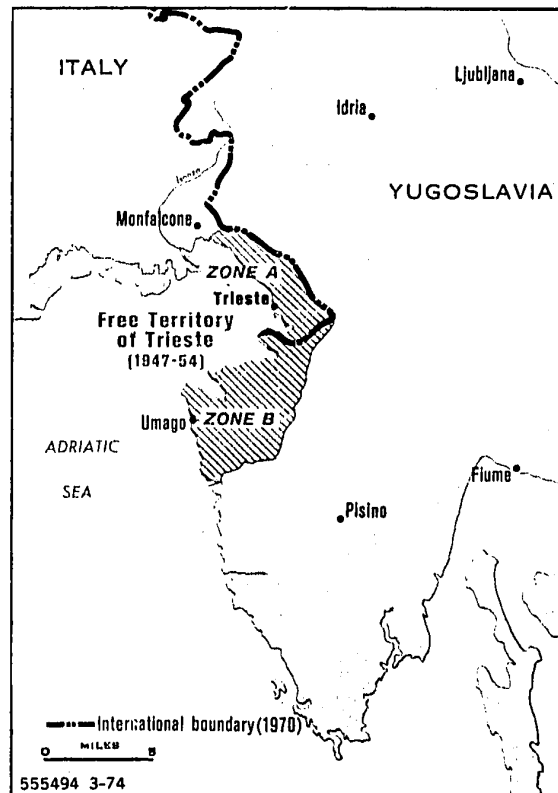
Rome apparently broke this pattern with an unpublicized note in mid-January which reasserted Italian claims to the territory and protested Yugoslavia's posting of border signs in Zone B. Rome was apparently prompted to formalize its protest after Belgrade failed to respond to an oral request for an explanation. The request was triggered by parliamentary pressure from the neo-fascists. The government probably wanted to avoid neo-fascist grandstanding at a time when public confidence is at a low point due to the recent cabinet crisis and a major oil pay-off scandal. Although this note was subsequently recalled, Rome renewed its claim with another protest on March 11. Belgrade then made the quarrel public by issuing its own diplomatic protest and opening up the propaganda vents.

Italian diplomats claim that Rome wants to soften the polemics by officially expressing its desire for good relations, but without fully withdrawing its territorial claim. Belgrade will probably reject this because it leaves the Italian claim on the public record. As Rome prepared its next move, the Yugoslav Government strongly

denounced the Italian position on March 20. Belgrade put the onus on Italy for "crushing" good bilateral relations and warned that Yugoslavia "knows how to defend its territory."

For Tito, the problems posed by the Zone B controversy extend well beyond Italian-Yugoslav relations. Irredentism is an unpleasant backdrop to his efforts to ensure a smooth succession, and Tito almost certainly believes that he cannot accept Rome's renewed claims to Zone B without inviting similar problems from Bulgaria. Although the Bulgarians do not make any direct claims on Yugoslav territory, Sofia steadfastly asserts that citizens of Yugoslavia's Macedonian Republic are Bulgarian by nationality. The Yugoslavs have recently been extremely defensive about the Bulgarian position, which has also probably undercut an improvement in bilateral relations.

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ITALY: RUMOR TRIES AGAIN

Prime Minister Rumor's new center-left government will probably survive a forthcoming vote of confidence in parliament. The odds, however, are against the coalition enduring much beyond the national referendum on the legalized divorce bill, scheduled for May 12.

The speed with which Rumor was able to put the government back together after its dissolution on March 2 indicates that the coalition partners merely papered over long-standing differences. With the divorce campaign already heating up, the parties were reluctant to embark on the long negotiations usually required to formulate a program and reshuffle cabinet portfolios.

As a result, the new government looks and sounds very much like the old one. The major difference is that the Republican Party, which triggered the crisis by withdrawing from the government after failing to resolve a dispute with the Socialists over economic policy, has refused to accept cabinet posts. The Republicans are limiting their participation to support in parliament for a cabinet made up of the remaining three center-left parties--Christian Democrats, Socialists, and Social Democrats.

The new government has echoed its predecessor's pledge to give top priority to the fight against inflation and problems related to the energy shortage. Substantial progress is unlikely, however, since the dispute over how to achieve these goals remains unresolved.

There is already widespread talk of a new political "stocktaking" after the divorce referendum. In the meantime, the campaign leading up to the referendum will probably have first call on political energies. The referendum will either confirm or abrogate a 1970 law that legalized divorce, but most politicians are playing for higher stakes.

Those who favor legalized divorce--including all of the political parties except the Christian Democrats and neo-fascists--will portray the referendum as a challenge by the Catholic Church



Rumor's dilemma *—No solution ahead*

to individual civil rights. This alignment of forces will isolate the Christian Democrats from their coalition partners and allow the Communists to accuse the Christian Democrats of collusion with the neo-fascists. The Communists, who were stunned by the neo-fascists' electoral gains in the early 1970s, will conduct their campaign as an anti-fascist crusade.

Many politicians think that the referendum has turned into a personal battle between the leaders of the country's two major parties--Christian Democrat Amintore Fanfani and Communist Enrico Berlinguer. Berlinguer, in a bid for a Communist role in the national government, has been arguing that the time is ripe for a rapprochement with the Christian Democrats. He thus tried to get Fanfani to go along with a plan to cancel the referendum in order to avoid an open battle between the two parties. Fanfani's refusal to cooperate, however, has given substance to the concerns of more militant Communists who doubt the wisdom of Berlinguer's call for a *modus vivendi* with the Christian Democrats. Even the Soviets have chided Berlinguer for falling into a trap set by Fanfani.

In this atmosphere, it will be difficult for the Communists to adopt once again the moderate line that gave Rumor's previous government an extended breathing spell. The Communists still hope for an eventual deal with the Christian Democrats but, for the moment, the party line is one of "intransigent" opposition to Rumor's fragile coalition.

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PRAGUE GIRDS AGAINST THE WEST

Prague's growing attention to ideological discipline reflects the domestic political danger: that the regime sees in detente. Czechoslovak media have stepped up their attacks on Western proposals for freer movement and on the corruptive nature of Western ideas and values. In addition, the regime has begun a "complex cadre assessment," that is, a review of the ideological and professional credentials of all personnel holding responsible positions in the party and state bureaucracy. These moves are clearly designed to serve notice on all segments of the population that detente will not be allowed to erode the party's control.

Prague is evidently attempting to respond to Soviet calls for strict conformity throughout Eastern Europe. In many respects, however, detente poses a unique problem to the Czechoslovak leadership. Unlike most other East European regimes, authorities in Prague must contend with a population that still cherishes Western democratic traditions and has fresh memories of Dubcek's "socialism with a human face." The leadership feels it



Czechoslovak youth—Western influence

must move effectively to immunize or get rid of those in key positions who might be susceptible to Western influences so that any increase in East-West contacts does not make the infection worse.

In the effort to counter the Western position on free movement, the Czechoslovak press has recently given much space to restating and defending the party line on the European security talks. The media have noted that Prague favors cultural exchanges but cannot permit "deliberate attempts" by forces in the West—including Radio Free Europe's "hostile and anti-socialist propaganda"—to undermine Czechoslovak sovereignty, laws, and customs. One recent article also charged that Washington was tying the extension of American credits to the acceptance of propagandistic US films and cultural programs.

The leadership's rather formalistic approach to the campaign for ideological discipline is not likely to reduce the attractiveness of Western values among all segments of the population, especially the youth and dissident writers. The decision to conduct the cadre review will, however, drive home the message to all party members that detente cannot mean a relaxation in Czechoslovak political life.

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The right wing may have been behind the refusal of Portuguese censors to allow publication at home of Caetano's statement to a French news weekly that he would not resign, although other portions of his interview were carried. President Thomaz's reluctance to prolong the present crisis by firing the Prime Minister may protect Caetano for the time being.

The sporadic military alerts of the past week have been lifted, but military and government officials are concerned about the extent of dissent over the firing of Costa Gomes and Spínola. Neither general appears to have been directly involved in the revolt by some 200 officers and men, but the march on Lisbon belies the declarations of loyalty given last week by other senior military officers just before the public announcement of the dismissals.

Other signs of defiance were evident last week when the alumni association of Lisbon Military College awarded decorations to the two dismissed generals and to Lt. Colonel Joao Bruno, a close associate of Spínola and a hero of action in Portuguese Guinea. In addition, both generals were elected to top offices in the alumni association.

PORTUGAL: SUPPORTING THE RIGHT

The short-lived military revolt last week revealed dissent within the military over Portugal's African policy and may have weakened Prime Minister Caetano's position.

By agreeing earlier to the dismissal of Generals Costa Gomes and Spínola, Prime Minister Caetano has increased his dependence on the ultra-right wing of the Portuguese establishment—an element he has never been popular with in the past. They forced him to back down before when he tried to modify Portuguese African policy, maintaining that any relaxation would lead to the loss of the overseas possessions. The ultra-right faction includes President Thomaz, the forty wealthiest families, and some high-ranking military officers. It is especially annoyed because Caetano permitted the publication of Spínola's book, and it probably will continue to suspect the Prime Minister of wanting to create a federation of Portugal and its overseas provinces.

The government is treating the two generals with caution. Both are free to come and go in Lisbon. General Spínola's book urging a federation with the African provinces—which set off the furor that led to the dismissals—is now being permitted to be sold in Lisbon bookshops.

The government has, however, arrested Lt. Colonel Bruno along with some 30 other officers. According to press reports quoting informed military sources, the general commanding the Lisbon military academy and an admiral who is the naval secretary of the Armed Forces Defense Staff have been dismissed in the aftermath of the abortive revolt.

The regime may succeed in stilling dissent within the armed forces and censoring public discussion of overseas policy, but in so doing it only postpones the day of reckoning over its efforts to retain its African territories.

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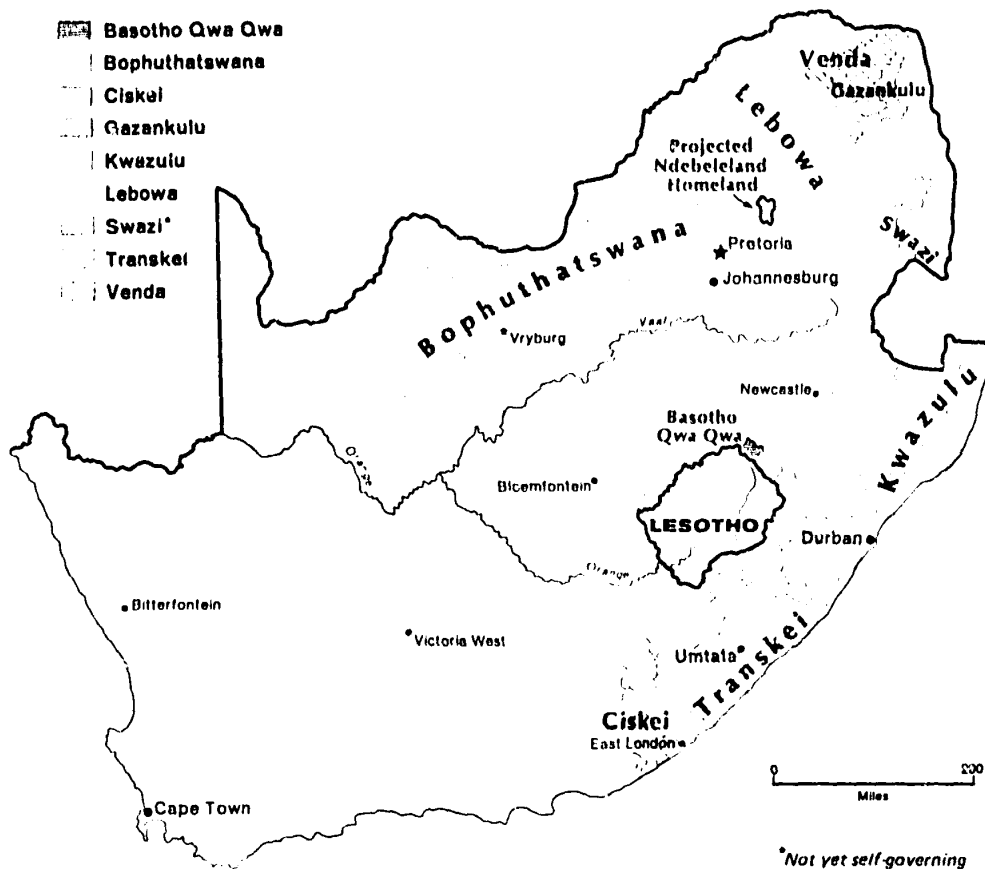
SOUTH AFRICA: BANTUSTAN INDEPENDENCE

Transkei, the oldest of the self-governing tribal homelands--Bantustans--created within South Africa, may soon request independence. Prime Minister Vorster apparently has encouraged the move in order to show South African whites, who go to the polls next month, that the Bantustan program is working out to their advantage. It is doubtful, however, that the remaining tribal homelands could be brought to accept independence without concessions by Pretoria that would provoke serious white opposition.

South Africa's white rulers developed the Bantustan program in the early 1960s to justify their policy of rigid apartheid--racial separation. An eventual transition to independent status has been a feature of the program from its inception, although Pretoria expects the Bantustans to remain completely dependent satellites.

Transkei has had an autonomous administration since 1963. At its recent annual congress, the territory's leading political party resolved to

South Africa: Bantustans



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request independence within the next five years. Last week, Transkei's chief minister, Kaiser Matanzima, introduced an independence resolution in the Transkei legislative assembly.

In a private conversation with the US consul general in Durban, Matanzima stated that independence could come within two years. He emphasized, however, that before his government would accept independence, Pretoria must turn over a small Indian Ocean seaport and other land parcels that have been tentatively promised. Matanzima had previously asserted that Transkei would not accept independence until Pretoria ceded much more extensive territories that originally belonged to the Transkei's Xhosa tribe.

At the party congress, Matanzima reportedly argued that Pretoria would increase its financial aid to Transkei after independence because Prime Minister Vorster wants the first independent Bantustan to become a "showcase," both to induce leaders of other Bantustans to request independence, and to gain international approval for the Bantustan program. These arguments apparently won over party members who had wanted to hold out until Transkei's maximum land claims were met. Matanzima's hope of greater financial aid from Pretoria may be unrealistic, but Vorster is believed to have assured him that modest territorial claims would be readily granted as part of an independence settlement.

Matanzima's willingness to go forward on this basis with the implementation of the Bantustan program will be politically helpful to Prime Minister Vorster. With national elections scheduled for April 24, he is especially eager to show white voters that he can mollify the Bantustan leaders with concessions that are far short of the sweeping demands they put forth in a manifesto last November.

Early independence for Transkei would not necessarily hasten independence for the other seven homelands that now have some degree of self-government, but it could spur the demands of the leaders of the other Bantustans for consolidation of their fragmented territories. Transkei is the only Bantustan that has a consolidated territorial base, and leaders of other homelands have a

greater need than Matanzima to insist on major land transfers before independence. Although Pretoria has plans for a partial and very gradual consolidation of other Bantustans, actual land transfers have barely begun. The Vorster government is proceeding cautiously in order to minimize its financial burden and, more important, the opposition of white farmers who have to move from any lands transferred to the homelands.

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IRAQ-KURDS: TIME IS RUNNING OUT

Iraq's troubles with its Kurdish minority could soon erupt into serious fighting. Baghdad has given the Kurds until March 26 to accept its plan for limited autonomy. Kurdish leader Barzani has already rejected the plan publicly, and last week Kurdish forces seized several Iraqi garrisons near the Turkish border. Although there have been rumors of attempts to re-open talks between the two sides, no progress appears to have been made in resolving the impasse.

Meanwhile, both sides are continuing military preparations. The government may first try to establish a puppet government in the Kurdish area. Such a government is likely to be opposed strongly by most Kurds, however, and if the government ultimately feels compelled to resort to ground and air attacks, the badly outnumbered and outgunned Kurdish rebels will be forced to relinquish population centers and take up new positions in the mountains where the terrain would be to their advantage.

For several weeks now, many Kurds have been fleeing to the north, either to join the armed rebels or to seek refuge. These refugees could become a serious problem for the Kurds if the government decides to impose an economic blockade of the area, making it difficult to acquire clothing, food, and shelter.

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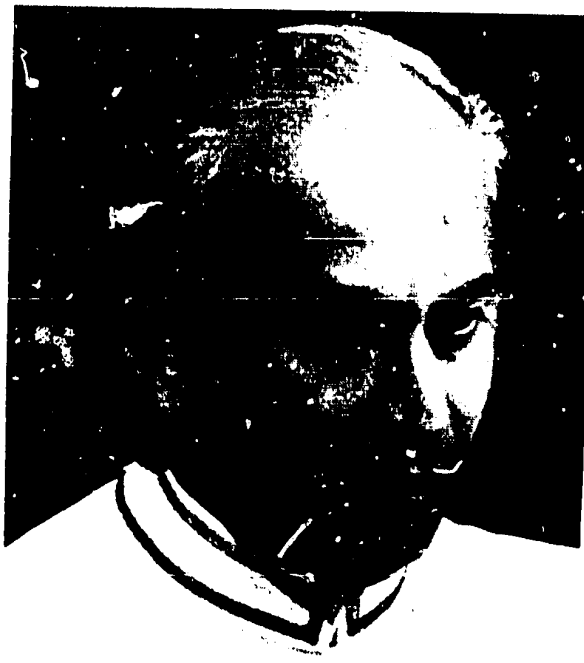
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PAKISTAN: CLOUDS ON THE HORIZON

Prime Minister Bhutto's personal prestige is currently at an all-time high, largely as a result of the public relations dividends he gained from the Islamic summit conference in Lahore last month. Recent developments in the Punjab and Baluchistan, however, could eventually cause problems for him and his ruling Pakistan People's Party.

Earlier this month, Mustafa Khar was replaced as chief minister of Punjab Province by Mohammed Haneef Ramay, a move that in effect reversed the power positions of the two diverse political forces on which Bhutto's party is based in the Punjab. Ramay, born in Lahore, represents the urban elite that is committed to social, economic, and land reform. Khar's support has come mainly from the rural and conservative elements



Bhutto

of the province. Although Khar reportedly will not challenge Ramay and the urban elite's present control of the party apparatus, his supporters may not go along with him. In that event, the internal cohesion of the provincial party organization could face a serious test.

In Baluchistan Province, the plans of the People's Party for ending the governmental instability and tribal dissidence that have long troubled the area could be upset by the party's heavy-handed methods of strengthening its position. Several members of the provincial assembly, who belong to the National Awami Party, the main opposition group, were recently jailed or forced into hiding and their seats declared vacant. By-elections for the vacated seats were boycotted by the National Awami Party, which charged that the government would manipulate the results in order to ensure the election of People's Party candidates. The boycott apparently has given the People's Party enough seats to establish firm control over the provincial government, but at the cost of increasing the frustration and anger of the opposition.

Prime Minister Bhutto, for his part, is attempting to undercut the role of the traditional leaders of the Baluchi and Pathan tribes by imposing administrative changes in the province from Islamabad. These tribal leaders have generally supported the opposition.

In addition, the recent murder of an opposition politician in Baluchistan may cause further trouble for Bhutto's party. The deputy speaker of the provincial assembly, who was also a Pathan leader, was found dead on March 13. If his death can be traced to the People's Party, other Pathan leaders and politicians in the province will be under strong pressure from their constituents to avenge the killing or risk losing popular support. In that event, Baluchistan could become still more restive.

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INDIA: GRIM ECONOMIC PROSPECTS

The outlook this year for the depressed Indian economy is grim. Inflation, stagnating industrial production and smaller-than-planned increases in agricultural output continue to be major problems. Chronic trade imbalances are increasing because of soaring import costs—especially for food grains, petroleum, and fertilizer—and slow export growth. The prospects for obtaining new foreign aid remain uncertain.

Inflation is India's major economic problem, with the rate of inflation climbing to record levels in 1973. At the end of December, wholesale prices were 26 percent higher than a year earlier. The principal cause of inflation—deficit financing of government expenditures—continues unabated. Slow industrial and agricultural growth also continue to constrain supplies, which remain only slightly ahead of population increases.

The budget for the fiscal year beginning April 1 virtually ignores the inflation problem. Expenditures are scheduled to increase 16 percent to \$11.7 billion and the deficit is projected to move up 33 percent to \$160 million. The actual deficit last year was ten times that estimated, and this year it is again likely to be significantly greater than anticipated in the budget.

Industrial production stagnated in 1973. Hampered by energy shortages, transport bottlenecks, raw material shortages, labor strife, and reduced demand for capital goods, there is little chance of recovery this year. In addition to recurring electric power deficiencies and coal shortages, petroleum is now in short supply. India imports 70 percent of its petroleum supplies. Increased domestic oil production hinges on the long-term success of exploratory drilling now under way offshore from Bombay. Renewed attention is now being given to coal, which has long been neglected despite sizable reserves. New Delhi's efforts to counter energy shortages by cranking up domestic coal production and increasing petroleum exploration will take time.

For the immediate future, energy shortages will continue to hamper industrial production.

Agricultural production has recovered from last year's dismal performance and food grain production probably will increase about 10 percent to 105 million tons in the crop year ending June 30, 1974. Output is still 10 million tons below planned levels, however, because of bad weather, crop disease, and fertilizer shortages. Grain stocks and indigenous government procurement efforts will be inadequate to maintain the government's food grain distribution system until the fall harvest. Nearly 2 million tons of grain imports, already contracted for this year, are being delivered. More will be needed but high prices will curb sizable purchases for some time, unless New Delhi can obtain concessionary terms from sellers.

Although exports increased about 20 percent in 1973, imports increased 45 percent, creating about a \$150-million trade deficit. New Delhi received virtually no new net private foreign investment and had to use foreign exchange reserves and borrow \$75 million from the International Monetary Fund to pay its bills. In 1974, the deficit will increase as import costs continue to rise.

Import priorities have not yet been sorted out, but it is unlikely that imports will be adequate to accelerate production. Higher petroleum and fertilizer prices in 1974 will cost India an additional \$1 billion, the equivalent of one third of its export earnings. India's \$1.1 billion International Monetary Fund quota and another \$1.1 billion in foreign exchange reserves are available, but New Delhi is hesitant to draw down reserves or to go deeply into debt to the fund. The Free World Aid India Consortium will meet in June to consider new foreign aid. Most donors have been cautious, however, and the chances of India obtaining sharply increased aid are not good.

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VENEZUELA: TERRORISM COMEBACK

Left-wing extremists are following through on their declaration of war against the new president, Carlos Andres Perez, and his Democratic Action administration. Claiming to be urban guerrillas belonging to the outlawed Bandera Roja and Punto Cero organizations, the extremists assumed credit for the rash of arson and bombings as well as a bank robbery that coincided with Perez' inauguration.

Domestic as well as US-owned businesses in several Venezuelan cities were targets of the terrorists, who set fires that destroyed six structures of the largest warehouse complex in Caracas and damaged a high-rise apartment building in the city's center. In addition, bombs were found in a US-owned department store and in the offices of a US oil company. Attempts to put out the warehouse blaze, the worst in Caracas' history, were hampered for a time by snipers shooting from a nearby low-cost housing project at firemen and police. National guard and army troops were finally called in to restore order.

The government's reaction thus far has been relatively low key. Interior Minister Luis Pineda Ordaz has been urging the media, particularly the sensationalist tabloid press, not to give the extremists the publicity they are seeking. In his first press conference, President Perez repeated the admonition, characterizing the terrorism as the work of a few with no political backing. At the same time, Perez warned that he would give no quarter in clamping down on further outbursts. Government officials believe that the guerrillas hope to provoke a repressive counter-reaction from the new government that would unite the now-divided leftist forces in the country and at the same time win publicity for their moribund organizations.

Lacking the men, the organization, and the foreign support they received during the full-scale armed insurgency in the 1960s, the terrorists have nothing to gain but annihilation by openly baiting



Warehouse complex blazes
Terrorist arson

the Perez administration. Even the leftist political parties, including the marxist Movement to Socialism, have publicly dissociated themselves from the extremists, a fact acknowledged by President Perez when he absolved the legally established leftist parties of any connection with the terrorists.

Although some of the incidents could be the work of common criminals, there is little doubt that the level of guerrilla violence, as well as the announcements by groups claiming to be guerrillas, has increased in recent days. Although the extremists are not capable of shaking the stability of the government, they can manage scattered acts of violence, which will probably continue for the immediate future.

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PERON LOOKS EASTWARD

In an attempt to retain Buenos Aires' independent outlook in international relations, Juan Peron is seeking to expand Argentina's economic relations with the Communist world. Several Communist nations have responded by agreeing to extend substantial amounts of long-term aid to Buenos Aires.

Romanian President Ceausescu, during his visit to Argentina in early March, signed a \$100-million credit agreement. The credits, the largest by Bucharest to a South American country, cover aid for agricultural, mining, and petro-

leum development. A \$37-million contract for Romanian oil-drilling equipment has already been signed.

In mid-February, the USSR and Buenos Aires concluded a series of economic agreements that included credits, but the amount of aid was not fixed. Soviet financial assistance was offered for steel, petroleum, forestry, transport, power generation, and maritime industries. Soviet technicians already are considering a proposal to assist in the construction of a deep-water port in Patagonia, and Moscow is hoping to provide power-generating equipment for the prestigious Salto Grande hydroelectric project. Although Argentina has not yet accepted the Soviet bid for \$65 million, which is below the lowest Western bid, Moscow sweetened the offer with \$10 million of credits to defray local construction and installation costs.

Recent economic agreements with other Communist nations include the provision of credits by Czechoslovakia for power-generating equipment and the eventual establishment of a joint company to produce power equipment for sale in Argentina and elsewhere in Latin America. Poland has pledged assistance to Argentina's fishing, shipbuilding, and mining sectors, while Hungary currently is drafting a cooperation agreement for bauxite development and a plant to manufacture port equipment.

Argentina's plans for industrial diversification mesh with Communist desires to reduce the deficit in their Argentine trade, which has averaged more than \$50 million annually over the past three years. Peron, faced with \$2 billion in debt-service payments to Western creditors through 1976, may view Communist long-term aid, repayable in goods, as a viable alternative to increased Western assistance. This merger of interests should lead to an eventual increase in the exchange of goods, technical and scientific information, and possibly personnel.

Country	Date	Type of Agreement
Czechoslovakia	February 21	Protocol on expanding economic cooperation
Hungary	March	Draft economic and technical cooperation agreement
Poland	March 4	Protocol on expanding economic cooperation
Romania	February 16	Convention on scientific-technical cooperation
	February 22	Maritime transport agreement
	February 5-8	General agreement for economic and technical cooperation
	March 5-8	Agreement on cooperation in the agro-industry field
	March 5-8	Agreement on cooperation in mining
	March 1-8	Credit agreement for \$100 million
	March 5-8	Agreement on tourist cooperation
USSR	February 12	Agreement on economic and commercial cooperation
	February 12	Credit agreement on supply of machinery and equipment
	February 12	Agreement on scientific-technical cooperation

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CHILE**TO RENEW TIES WITH BOLIVIA**

Chilean junta chief Pinochet and Bolivian President Banzer agreed last week to appoint a binational commission that will attempt to resolve major differences as a prelude to the renewal of diplomatic relations and economic cooperation. The commission will begin secret meetings in Uruguay within the next two months.

The major stumbling block to an agreement could be Bolivian insistence on obtaining an outlet to the sea through Chile. The two nations broke relations more than a decade ago during a dispute over the use of common water resources. Even before that, however, ties had been strained for almost a century because of Bolivia's claims to territory on the Pacific coast conquered by Chile during the War of the Pacific.

The cordial meeting of the presidents was arranged by Brazilian officials during the inauguration festivities in Brasilia. The new Geisel administration undoubtedly sees several benefits in improved relations:

- both military regimes would be strengthened;
- even partial reconciliation would earn Brazil prestige as an international arbiter, since the two leaders met for the first time on Brazilian soil;
- a possible Chilean concession to Bolivia on access to the sea might involve internationalization of a port in northern Chile, a development that Brazil views as an opportunity for economic gain and increased influence.

A series of regional trade agreements is reportedly being discussed at Chile's suggestion. Chile is concerned about Peruvian revanchism and is anxious to attract foreign investment to its northern border region, and the junta probably

believes that a Brazilian economic stake in the area would help discourage Peruvian incursions.

SIX MONTHS LATER

Pronouncements made on March 11 to mark six months of government by the armed forces and *carabineros* strongly reiterated their determination to restructure Chile's political, economic, and social systems before allowing a return to civilian rule.

The statements outlined plans for the creation of a "social democracy" free of the partisan politics of the past. The military and police intend to eschew reliance on any organized political group. Instead, they will attempt to create their own base of mass popular support through a



Pinochet

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highly structured chain of command extending from the junta to neighborhood councils. Participation will be compulsory.

Junta President Pinochet emphasized the regime's sympathy with the low-income groups that are bearing the brunt of the economic recovery program. Although he acknowledged that further privations lie ahead, he promised that "the same generation will reap the fruits of these sacrifices." Pinochet also noted that new taxes will spread the burden more evenly and warned "those who seek only their own profits and ignore their social duties" that drastic penalties will be imposed for violations of economic regulations.

Christian Democratic Party patriarch Eduardo Frei was the only living ex-president not present to hear Pinochet's speech. He had planned to attend but changed his mind following publication of the junta's paper on social development, a portion of which strongly attacked his party. Frei was not appeased by a private message from Pinochet

Pinochet turned down Frei's request for a public presidential disavowal, but the press later carried a disclaimer from the junta.

The Christian Democrats appear to have taken the incident philosophically, but they remain concerned over the machinations of those with a vested interest in bringing about an open break between the party and the junta

GUATEMALA: ONWARD WITH LAUGERUD

The Guatemalan Government, which seems to have stifled opposition to the disputed count in the election on March 3, is preparing to build a presidential image for General Kjell Laugerud, who is slated to assume office on July 1.

Guatemalans generally believe that Laugerud's election was engineered by gross fraud, but the opposition's attempts to thwart a Laugerud victory by peaceful resistance have been ineffective. Appeals by defeated candidate General Efraim Rios Montt for nationwide strikes have gone unanswered, and street demonstrations have been easily broken up by police. The army has been uneasy over the situation, but its top generals now appear to be backing the government, and coup rumors have subsided.

Rios' principal supporters in the left-of-center National Opposition Front are still urging the public to reject the "imposition of Laugerud," but these efforts are likely to have little effect now that the Front is leaderless.

Meanwhile, the government reportedly is working to ensure that Laugerud will have a friendly congress to deal with.

As in the presidential contest, Rios' party outpolled the coalition and legitimately won the largest number of deputy seats.

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